Track: 10 Marketing

Psychic Distance: Similarity or Familiarity?

AUTHOR: DR. PAUL BREWER

UQ Business School

University of Queensland

Queensland Australia

Contact: p.brewer@business.uq.edu.au

Phone: 61 7 3365 7145

Fax: 61 7 3365 6788

July 2003

PSYCHIC DISTANCE: SIMILARITY OR FAMILIARITY?

INTRODUCTION

One of the key decisions in the internationalisation of a firm is the selection of the "right" country markets (Andersen & Strandskov, 1998). In this connection, knowledge of markets is an intuitively obvious key to selecting profitable markets if a firm is not to rely on pure chance. Indeed, the importance of managers' knowledge in the internationalisation process is well documented over many years (Brewer, 2001, Liesch & Knight, 1999, Reid, 1984, Vernon, 1966). Closely related to knowledge is the notion of psychic distance (Johanson & Wiedersheim-Paul, 1975). Psychic distance was defined by the Uppsala internationalisation school as "the sum of factors preventing or disturbing the flows of information between firm and markets" (Johanson & Wiedersheim-Paul, 1975, p.308) and has been widely cited in the international business literature as a driver of international market selection (IMS).

The connection between psychic distance and knowledge is that a firm's managers will tend towards those country markets that they can get to know most easily and they will avoid those it is difficult to get to know. It is further postulated that psychic distance is a result of perceived business differences between the firm's home environment and that of foreign country market(s). The bigger the perceived differences the less likely a country will be selected. As a consequence, firms initially select markets which are perceived to be similar and will then move on to countries which are perceived to be dissimilar (Davidson, 1980, Erramilli & Rao, 1990, Petersen & Pedersen, 1996, Stottinger & Schlegelmilch, 1998). Thus, psychic distance is a significant deterrent, at least in the initial stages of a company's international business development, and particularly in the case of small and medium sized firms (Cicic, Patterson, & Shoham, 1999). It is further argued by the Uppsala internationalisation model proponents that as a firm becomes more internationally active the influence of psychic distance on its market selection decisions is reduced (Benito & Gripsrud, 1992). This supports, if true, the contention that firms do not employ objective evaluation methods for market screening but depend more on non-economic circumstantial factors (Ellis, 2000, Papadopoulos, 1987, Tornroos, 1991).

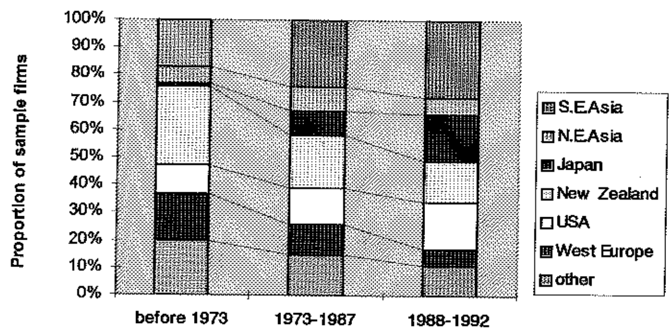
Since psychic distance was accepted as a main-tream international business concept it has received significant empirical support, in various forms, from researchers (Dow, 2000, Petersen & Pedersen, 1996, Welch & Luostarinen, 1988) and its intuitive logic is appealing.

It should be noted that there does exist some disagreement as to the knowledge/ psychic distance/market selection connection. Andersen (1993) argues that the stages model of internationalisation built around psychic distance is simplistic, it does not adequately explain how the process occurs nor does it allow for prediction between the stages. Reid (1984) is of the view that psychic distance is much too deterministic and firms respond in their own idiosyncratic ways to the challenges of internationalisation. Bell's research (1995) indicates modern technology is making a difference to small firms' internationalisation patterns and psychic distance is no longer important. In addition, research on psychic distance is largely American or European (O'Farrell & Wood, 1994) and the extent of its relevance to businesses in other countries which have different geographical and cultural imperatives, is open to question. However, overall, psychic distance remains a widely cited and well supported influence on international market selection (Dow, 2000), even in the face of the confusion over its operationalisation described in the background section below.

In an Australian context, there are two facts which attracted the author's attention in the context of psychic distance theory. The first was the great importance of East Asian markets to Australian exporters (DFAT, 1999), even though Asian countries as a group are dissimilar to Australia across a broad range of business practices (DFAT, 2002, Sethi, 1971). Cultural difference between Australia and several of its most important export markets (Japan, China, Korea, Indonesia, Malaysia, Thailand) is high (Fletcher & Bohn, 1998). Major dissimilarities also exist in other important business parameters (DFAT, 1995). In addition, there has existed an array of commercial irritants which should have discouraged commerce between Australia and some East Asian countries in recent decades (DFAT, 1992). In spite of these psychic barriers, trade has flourished.

The other (related) intriguing phenomenon is the way in which Australia's firms have changed their country market priorities over the years. A survey of 295 firms published by the Australian Manufacturers Council (1993) shows that the first export market typically selected by Australian manufacturing firms has changed significantly over the years. Figure 1 shows the changes. The proportion of sampled firms seeking out East Asian markets first as a proportion of total first time exporters increased from 24% prior to 1973 to 51% in the period 1988 to 1992. The importance of more similar countries such as New Zealand and Western Europe declined accordingly.

Figure 1: Initial target markets of Australian firms



Source: Australian Manufacturing Council 1993

It is difficult to explain this change in initial country selection by Australian firms in terms of common notions of psychic distance. Surely, the relative similarities with Australia of the different regions have not changed so significantly over the period. On the other hand, one thing that has changed is the impressive growth in commercial opportunities emerging in East Asia over that period (Crovitz, 1994). Is it this commercial flowering that has lead to the swing in IMS outcomes for Australian firms? But if commercial opportunities drive target market selection then firms do select countries rationally, contrary to research opinion. This would imply the explanatory power of psychic distance in IMS is weak, contrary to the support for it in the research literature. Or perhaps researchers' common interpretation of the concept is flawed?

This paper seeks to more clearly illuminate what underpins the concept of psychic distance and thus how it might be better understood. The benefits to be gained from understanding IMS processes and hence the part played by psychic distance, have been well elucidated. They include, inter alia, a better understanding of international trade flows (Vernon, 1966), better training for firms' managers (Swift, 1999), improvement of managerial decision making and firm profitability (Fletcher & Bohn, 1998), improving public policy through better understanding of trade surplus/deficits (Dichtl, Koeglmayr, & Mueller, 1990) and better targeted government trade promotion schemes (Stottinger & Schlegelmilch, 1998).

The author has collected rich data from a number of Australian firms on their IMS practices as part of a wide study of internationalisation. My purpose, through this article, is to draw on the data to help clarify the role of psychic distance, at least within an Australian IMS context. A better understanding of Australian IMS practices would also contribute to the call for more geographic diversity of international business knowledge (Thomas, Shenkar, & Clarke, 1994).

This paper begins with a review of the definitions of, and the attempts to operationalise, psychic distance in the international business literature. The methodology of the research is then described and the results detailed. The conclusion, that psychic distance, as originally defined by the Uppsala authors, is important to Australian firms' IMS decisions is discussed. I point out that the practical meaning of that definition is quite different to the meaning commonly attributed to it by more recent researchers. The article concludes with a discussion of the limitations of the research and some suggestions for further exploration of the issues raised.

PSYCHIC DISTANCE BACKGROUND

The concept

Psychic distance is a concept which has been widely accepted and cited in international business research since it appeared in some ground breaking work at the Uppsala University on the internationalisation process of the firm (Johanson & Wiedersheim-Paul, 1975) (Johanson & Vahlne, 1977). The Uppsala internationalisation model argued that firms tended to select overseas markets in accordance with their psychic distance from the home country. A lower psychic distance meant a country was more likely to be selected and vice versa. The theoretical concept was built on the case study of a number of internationally active Swedish firms and its intuitive, logical appeal and simplicity encouraged researchers to look more closely at its implications.

As is so often the case with appealing theoretical concepts, the operationalisation of psychic distance has proved troublesome. Attempts to test its validity empirically have resulted in various new definitions including "difference in perceptions between buyer and seller regarding either needs or offers" (Hallen & Wiedersheim-Paul, 1984, p.17) and "factors preventing or disturbing firms' learning about and understanding a foreign environment" (Nordstrom & Vahlne, 1994, p.42) and "a firm's degree of uncertainty about a foreign market resulting from cultural differences and other difficulties that present barriers to learning about the market and operating there" (O'Grady & Lane, 1996, p.330). A review, which follows, of these subsequent research activities highlights the importance placed on differences between home countries (or their individual firms) and the characteristics of their potential markets as representing psychic distance, or indeed as being synonymous with the concept.

Psychic distance as geographic distance.

The geographic distance between countries is clearly pertinent to international business operations in that it has a bearing on the costs associated with developing an export market and the transport costs of delivering the final product. This, understandably, was recognised years ago and continues to be supported by evidence relating to the strong trade ties between many neighbouring countries. Thus, some have argued that distance may be a good indicator of a firm's likely export market selection (Srivastava & Green, 1986, Vernon, 1966). This importance of different distances between countries justified its use as perhaps the first surrogate indicator for psychic distance.

Psychic distance as national cultural differences.

More recently, culture also has been recognised as important to the conduct of international business (Hofstede, 1994, Kogut & Singh, 1988, Ralston, Gustafson, Cheung, & Terpstra, 1993). It is not surprising then another indicator commonly taken to represent important business differences between countries has been cultural distance. Researchers so inclined have then used measures of cultural differences as a measure of psychic distance and therefore as a measure of the likelihood of a country being selected in a firm's IMS processes. According to Holden and Burgess (1994): "High cultural affinity (i.e. likeness) is a major factor in reducing psychic distance between two parties" (p.33). Swift (1999) states: "culture underpins all the facets of psychic distance" (p.184). The most commonly used measure encapsulating national culture (and therefore differences in national cultures) is Hofstede's (1980) cultural dimensions model. Kogut and Singh (1988) produced a formula based on Hofstede's dimensions which clearly defines, through an index measure, cultural and psychic distances between countries. This measurement process can be adapted for use in any country and index values have been produced, for example, to measure cultural differences between Australia and other countries (Fletcher & Bohn, 1998). Another national "similarities" indicator is provided by Sethi's (1971) market clustering analysis which groups like countries together. Whilst this indicator is not based on culture it does capture other important national business characteristics.

It should be recognised, however, that some empirical doubt has been thrown on the influence of cultural distance as an indicator of the IMS process (Benito & Gripsrud, 1992, Sullivan & Bauerschmidt, 1990) and on other business practices (Moss Kanter, 1994).

Including perceptions of managers.

An advance on the use of national cultural indicators to measure psychic distance was made when it was noted that "normal" national characteristics don't always match the views or perceptions of a firm's decision makers (Petersen & Pedersen, 1996). Thus, it is the cultural perceptions of actual decision-making managers that are important in IMS, not objective assessment of "national averages". Petersen and Pedersen (1996) argue that deviations from expected patterns of internationalisation shown in some national level studies can be explained by special circumstances relating to the firms themselves. O'Grady and Lane (1996) concluded that psychic distance needs to include perceptions, understanding and experience of the firm's managers, since it is the firm, not a nation that is selecting country markets.

Including non-cultural differences.

Whilst managers' perceptions of cultural difference continue to be commonly used as a psychic distance surrogate, recently, several writers have pointed out that such a narrow definition fails to take into account other important non-cultural national characteristics (or the perception of such characteristics). Fletcher and Bohne (1998) call for "further research...to develop a measure of psychic distance that embraces aspects...additional to culture" (p.64). Evans, Treadgold and Mavondo (2000) emphasise the importance that should be placed on "perceived degree of similarity or difference between the home and foreign market" (p.376) in more than a cultural sense. They cite the major factors influencing perceptions of psychic distance as being language, business practices, political and legal systems, education, economic development, marketing infrastructure, industry structure as well as culture. Similarly, economic development, education levels, language, culture and trading channels are all seen as important by others (Nordstrom & Vahlne, 1994). Stottinger and Schlegelmilch (2000) used "relative foreignness" as the psychic distance criterion in their project. Cicic (1999) cites literature supporting the contention that firms new to international business seek out country markets with "similar characteristics" to their home markets.

A number of recent attempts have been made to capture all the elements of foreignness or difference between a firm and its country markets by using "independent experts". The methodology here is to obtain the opinion of experts in international business as to psychic distances between countries and then test these ratings against actual international business flows. The expert ratings can also be compared against other surrogate indicators mentioned above to see whether there is concordance. This expert panel methodology was used by Dow (2000) to show that it is a highly significant predictor of early export market selection for Australian firms and that the Sethi and Hofstede based models are not good predictors. His work also supports the contention that the impact of psychic distance lessens as the firm becomes internationalised. Unfortunately, Dow does not clearly state in his article the criteria put to the expert panel in deciding the psychic distance of countries other than to say it was an adaptation of various researchers' definitions. However it can be assumed to relate to business differences. Stottinger and Schlegelmilch (1998) also used this methodology, involving business managers in North America. Their work did not support the common contention that psychic distance, "being the perceived foreignness of international markets" which "can be expressed in differences", is a good predictor of IMS and that it declines with experience.

The central importance of "differences".

Thus while attempts to operationalise and measure psychic distance have relied on a variety of indicators and results have been mixed, there is a common consensus throughout the recent work: psychic distance equals business differences. It is identification of these differences, from geographic distance to culture to business operations, and their measurement, that have plagued a general agreement on the usefulness of the psychic distance concept. The issue of how the differences should be operationalised remains contentious and results of empirical testing of psychic distance, under its various "differences" guises, have been mixed and inconclusive.

Many calls for further work on psychic distance have been made. Stottinger and Schlegelmilch (1998) suggest "a more qualitative approach to capturing psychic distance may represent a way forward" and "should it be possible to improve the measurement of the concept, it could be an important predictor of export behaviour" (p.368). Evans, Treadgold and Mavondo (2000) endorse that conclusion. In spite of their support for the psychic distance concept, Petersen and Pedersen (1996) conclude that "twenty years after the emergence of the Uppsala internationalisation model, many empirical studies and a lot of theoretical development still remain to be done" (p.132). Dow (2000) in accepting the limitations of his work, echoes the original authors Vahlne and Weidersheim-Paul (1977) in their call for more research on the "formulation and measurement of psychic distance" (p.13). Ellis (2000) found, inter-alia, that there is little support for the psychic distance role in the early IMS activities of a group of Hong Kong toy makers and states: "there is a need for further foreign market expansion research which is based on in-depth interviews" to promote theory-building (p.463). O'Grady and Lane's (1996) discovery of a psychic distance paradox leads them to suggest that "the psychic distance concept... should be explored more fully" (p.311).

Recognising a need to provide further clarification of the concept of psychic distance, this article takes a fresh look at what psychic distance may mean in the minds of business managers. It addresses the question "how does psychic distance affect Australian IMS practice?"

METHODOLOGY

The research question is one that needs to be answered through a rich understanding of the processes involved in IMS. It is of a "how" type and lends itself to a qualitative case study methodology (Yin, 1994), as called for by the researchers already cited. The intention is to "generalise" case study data to existing theory relating to psychic distance through induction and thus build a better understanding of the concept, a classic qualitative technique (Firestone, 1993). The research design is based on the road map developed by Eisenhardt (1995) which utilises qualitative study of multiple cases to develop theory through analytic induction. Eisenhardt's (1995) design calls for a sample of between 4 and 10 cases, a range supported by Remenyi et al (1998).

This research is based on the extensive discussions the author had with a number of international business managers who participated in a broad study on Australian international market selection practices. The interview format provided an extremely rich source of data on many aspects of the firms' international business activities and gave the author the opportunity to explore a number of important issues. Psychic distance, given its prominence in the literature, was one such issue examined. Some 25 firms were sequentially approached until 6 had agreed to participate. A purposive sampling technique was employed to select the firms originally approached and finally selected. The cases were chosen to span different sizes, different industries and different degrees of international involvement to maximise diversity and improve capture of "generic" practices (Firestone, 1993). As a secondary consideration diversity in age and ownership form were sought. The only conditions applied were that the firms be registered in Australia and owned by Australian-based interests and that they already be involved in international business. This last condition was intended to ensure the firms could discuss actual experiences in IMS. The case firms have the characteristics shown in Table 1.

Table 1: Case study characteristics

Case no.	Industry	Size (employees)	Ownership	Int'l. sales as % of total
1	Horticultural products	35	Private company	50
2	Lighting systems	24	Public company	95
3	Prefabricated buildings	700	Subsidiary of public company	20
4	Mining equipment and associated services	219	Subsidiary of public company	65
5	Education services	5000	University	12
6	Software	17	Private company	65

All firms are exporters and all except Case 6 also have some form of overseas production.

Interviews were conducted by the author with the executive in each firm chiefly responsible for selection of new markets. This was usually a designated international business development manager but in two cases it was the managing director. The interviews were held over a number of weeks and included 4 to 6 sessions of 2 to 3 hours each with each firm. The interviews followed a protocol of issues to be covered, but not specific survey type questions. In all cases, except case 2, they included interviews were held with a second executive within the same organisation to provide triangulation support. Interviews were recorded and later transcribed into hard copy for content analysis. This analysis consisted of searches, first, for relevant incidences of IMS and, then, for words that would enable understanding of the important issues and elements in each case's IMS processes. Words and phrases used in IMS descriptions by firm managers were identified and coded by the author into groups of concepts or constructs. These concepts were then analysed for their frequency and importance in discussions (Weber, 1985). Researcher induction plays a key part in meaningful outcomes of grounded theory research (Eisenhardt, 1995) and my discussion section represents that important "uncodified step that relies on the insight and imagination of the researcher" (Langley, 1999, p.707)

RESEARCH RESULTS

Case firm managers were asked to identify the country that was their first foreign market. Case 3 managers were unsure of the first market entered by their firm, an event long past which occurred under different ownership and management. In the five cases where the history of first foreign market selection was known, managers were asked to discuss the circumstances surrounding the selections.

Case 1:

Case 1 developed its first market in Japan as a result of winning a contract with an Australian customer to supply their horticultural products to that customers' exhibition facility in Japan. This was a big one-off contract and entailed visiting Japan to ensure the effective delivery, positioning and care of the plants. Japanese buyers subsequently were exposed to the product, interest was generated and sales grew to new Japanese customers. Thus the firm gained first hand experience in the market through a domestic customer.

According to the MD: "we were approached by (a state government agency) to grow plants for (their exhibition in Japan)". "It was a highly successful operation, not only for us learning and shipping and getting (the product) into the country". "(The deal) was probably the most difficult one that we could have done". "So that was where we first became exposed to the opportunities of export". "What happened as a result of that is that we received inquiries (for their product)".

Case 2:

Case 2 began its offshore sales into Singapore and Malaysia. The Managing Director had lived and worked in Singapore in the same industry for five years before starting up his own company in Australia. He was therefore highly familiar not only with Singapore/Malaysia business operations generally, but also those markets within his own industry.

The MD said: "(His Australian employer) had a major problem ...in Singapore and my job was to go over there and close it down and I ended up staying for 5 years". "And (his new company) went in there (Singapore/Malaysia) and set up". "The first day that we became a public company...we were actually in the middle of a project in Malaysia as well as here". "Asia's easy compared to America".

"To do business in a country you need to know how it feels and you need to know how it works". "I know Asia back to front".

Case 4:

Case 4 began as a local Australian mining operation which developed an engineering capability to manufacture its own equipment. It grew and was bought by a United States company. The firm's equipment was first exported to the United States with the support of its then corporate owner and it has had a US representative office ever since.

According to the GM: the firm "was owned at one stage by National Lead of the United States". "I'd say the United States was the first (export market)". "The client himself... has to be credit worthy, but the surrounding parts of the country have to be conducive to business".

Case 5:

Case 5 is a major Australian education institution that has only relatively recently aggressively expanded its full fee paying foreign student intake. It has, however, had a long history of providing tertiary education under Australia's aid program to primarily Singaporean and Malaysian students. When it moved to commercial foreign operations it focused on these primary markets first. It relied on alumni and academic relationships to promote courses.

The international business manager said: "(the institution) only had three traditional markets, Singapore, Malaysia and Hong Kong". "Singapore is probably our most mature market". "We re-established contact with prominent alumni". "We don't have those links in other markets" "our academics are often the best (marketing) resources". "but the academic links tend to come from Asia".

Case 6:

Case 6 has a founding managing director who was born in Zimbabwe. The firm quickly realised it would not be viable as a purely domestic business. The first export sale was to an Australian mining company operating in Indonesia. This same company was a customer in Australia. The second, almost simultaneous, sale was made to a mining company in Zimbabwe following a visit by the MD.

The Business Development Manager said: "Indonesia was the first (market)". "a lot of the mining companies in Indonesia are staffed by Australians". "so ... it's the same clients ... that (we're) selling to in Australia". "(The next) would have been Zimbabwe". "He (the Managing director) is a Zimbabwean ... his parents are there". The MD said: "I went to Zimbabwe and presented our software to ... so that's how that sort of started". "I obviously know a lot about Zimbabwe".

The basis of first country selection are summarised in Table 2.

Table 2: First country selection by case firms.

Firm	First market	Basis of first country selection
Case 1	Japan	Product introduced to country by domestic buyer
Case 2	Singapore/Malaysia	Previous professional experience of Managing Director
Case 4	USA	Parent company country
Case 5	Singapore/Malaysia/ Hong Kong	History of aid supported education links (alumni) Close academic relationships
Case 6	Indonesia Zimbabwe	Followed domestic customer (Indonesia) Country of birth of Managing Director (Zimbabwe)

Interviews revealed that firms identify countries and then conceptually evaluate those countries through the accumulation of knowledge. Managers cited a number of sources and channels of market information which I refer to as "informants." For any one country these informants are available in different numbers and strengths for different case firms, depending on their own circumstances. To some extent at least the information flowing via informants and the consequent knowledge developed by managers is subject to the vagaries of chance. The major informants important to the case firms were found to be as follows, listed in order of frequency of occurrence. The figures in brackets represent the total number of times each informant was mentioned by all firm interlocutors during the complete set of interviews.

Representatives. Representation, including agency appointments, can be a strong market selection informant. Apart from official agents firms might also have informal representatives in markets that help provide marketing information **(87).**

Enquiries. Unsolicited business enquiries are an important source of both country identification and evaluation information (**65**).

Visits to markets. Visits to markets were a commonly used informant in assessing attractiveness and competitiveness. Exploratory visits to countries close to existing markets are common (**58**).

Previous customers. Case firms often followed valued previous or existing customers (both local and foreign) into new markets. It is those customers that are providing market opportunities and defining the new country markets in this situation (**49**).

Allies. Firms draw on the knowledge and other resources of associated business units, business associations, government agencies and other entities with which they have directly shared interests (**35**).

Exhibitions. Exhibitions are regularly used by all the case firms as market evaluation informants (**34**).

Networks. Having access to knowledgeable networks of peer groups provides data, intelligence and contacts that help firms' managers inform decisions (**29**).

Primary research. The firms exhibited a strong tendency to undertake primary research to satisfy their own particular information requirements for country evaluation (**26**).

Experience. Some knowledge was available from past experiences of firm managers, for example, previous employment locations (**16**).

Published reports. Understanding market potential through publicly published material is important for some firms, particularly in industries which are widely and well reported on, for example, mining (**15**).

Government programs. Government business support programs (both in the home country and in foreign markets) can help firms to identify markets and then to assess opportunities **(9)**.

Referrals. Having a sales opportunity referred to the company by another party (eg. an overseas affiliate) for follow up **(4).**

Quantitative models. Quantitative models are generally not used by the case firms for IMS. However one of the larger cases uses a quantitative model to assist with major market selection decisions **(4)**.

Seminars. Market seminars and the like were not generally important however one firm finds public seminars and similar presentations on markets useful **(3)**.

DISCUSSION

Psychic distance interpreted as familiarity.

Unsurprisingly, this research supports conclusions that managers rely on developing knowledge about country markets through information flows. But, it was found that these information assets, in respect of initial markets, importantly depend on the pre-existing knowledge of managers and the ease with which they can gain additional knowledge. This is entirely consistent with the Johanson and Wiedersheim-Paul (1975) psychic distance definition, but it is an important departure from the most common forms of psychic distance interpretation in the literature, namely, perceived business differences. The extrapolation of psychic distance from "factors impeding the flow of information" to "business differences" is unsupported by my case firms. There is no evidence amongst the case firms of a general tendency towards country markets that are similar in culture, business practices or any other factors. This is not to say that "differences" do not affect international business operations, but rather that they are not central to the case firms' initial IMS outcomes.

Case 1 gained information on its first market, Japan, by selling product to an Australian customer. New knowledge was easily obtained while executing that sale via visits to Japan, managing delivery to Japan and concluding the contract requirements. Key informant was the firm's existing domestic customer.

Case 2 already possessed full information on their first market through the experience of the Managing Director. Key informant was the director's experience.

Case 4 was able to call on its parent company to facilitate its entry into the US market. Additional market information was readily available. Key informant was the firm's ally (its owner).

Case 5 called on its previous non-commercial education contacts with Singapore/Malaysia to develop new commercial markets. Key informant was the organisation's experience and networks.

Case 6 used sales to a domestic customer to gain entry to Indonesia and relied on the previous experience of the Managing Director to develop Zimbabwe. Key informants were previous customer and director's experience.

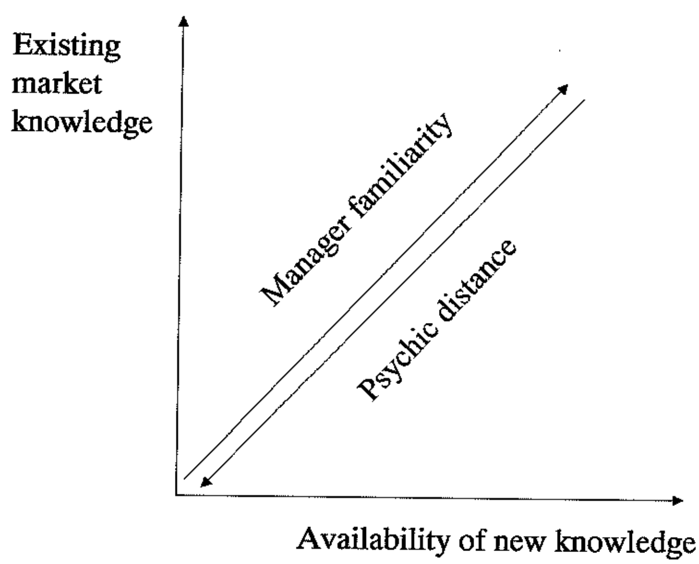
Thus each case developed its initial market on the basis of the managers' existing knowledge or the ease with which it developed new knowledge of that market. None of the first selected markets have become the firm's most important. It was the existing familiarity or the ease of development of familiarity on the part of managers with initial markets that drove the selection outcomes. Interestingly, none of the cases now regards its first market as its most important. In other words, market selection was not optimised through the familiarity process, supporting previous research on firms' "non-optimal" selection practices.

The relationships can be expressed as follows and are depicted in Figure 2:

(1) Psychic proximity = manager familiarity

(2) Manager familiarity = existing market knowledge and availability of new knowledge

Figure 2: Familiarity and psychic distance in early internationalisation



This model might well be what the original psychic distance authors had in mind. It almost certainly is at the heart of the Petersen and Pedersen (1996) proposition that "the managing director of an exporting firm may have spent several years in the Far East and accordingly perceives little psychic distance in this market" (p.131). The point here is not that the managing director sees the Far East as similar to her own environment, but rather that she is now familiar with it. This point seems clear, yet the literature does not include any studies measuring familiarity as a surrogate for psychic distance. The direct relationship between psychic distance and ease of information flows has been corruptly extrapolated to encompass a relationship between psychic distance and perceived business differences. Whilst it is accepted that differences may affect country market understanding, so may a wide range of other factors.

CONCLUSION

This research places emphasis on firms' familiarity with, not similarity to, target markets as being the key to IMS outcomes. That is to say, ***firms are most likely to target countries with which they are familiar rather than those that are similar.*** Similarities will make it easier to get to know a market, especially in the absence of other factors. But, as in my case studies, other factors can be expected to play a key part in knowledge development and a firm can become highly familiar with a very different country through circumstances which encourage, for that firm, information flows from that country. This is a quite different assertion to that of most psychic distance research which is based on similarities of countries (Cicic, Patterson, & Shoham, 1999, Evans, Treadgold, & Mavondo, 2000, Fletcher & Bohn, 1998, Nordstrom & Vahlne, 1994, Stottinger & Schlegelmilch, 1998).

This research provides an explanation for the apparent focus by Australian firms on highly "dissimilar" East Asian markets as described earlier in this article. Australian firms typically in recent decades have had powerful informants operating on them in respect of East Asian markets. Geographic proximity, fast ("miraculous") economic growth, Australian government diplomatic and trade policy emphasis, media coverage, tourist and student exchanges have all boosted the impact of East Asian informants on Australian firms. Commercial reports, exhibitions and visits to the region are common. Government programs, public seminars and Australia-Asia business associations have proliferated. Firms' existing customers have moved into the region in recent decades and an Australian firm's allies and networks are more likely to be exploring new opportunities there. These information flows have not made the region more similar to Australia in the eyes of managers. But they have raised familiarity with, and shortened psychic distance to, the region and have encouraged firms to make an early assessment of potential of these countries in their internationalisation process.

Limitations and issues for further research

This research does not claim to have uncovered a new, more meaningful operationalisation of psychic distance, but, rather, a new way of interpreting and understanding the concept in an IMS context. Operationalisation of "familiarity" at the firm level, and thus being able to measure it, remains a challenge for the future.

It is recognised that by the very nature of the research design there is room to conduct further research to extend and validate the findings of this article. Firstly, the case firms were restricted to Australia. This was the result of practical considerations and the desire to extend IMS knowledge in an Australian context. Secondly, in any case study scenario there is likely to be criticism of the parameters of the cases (too few, too many, too heterogeneous, too similar). However, the sample of six firms is within recommended parameters for a case study theory building research project and the case selection also follows classic multiple case orthodoxy (Miles & Huberman, 1994). There remains the question as to whether the generalisations to theory made from the case studies in my thesis can in turn be generalised to the population of Australian firms involved in international business. Further work in this area would help redress the recognised lack of research into Australian aspects of international business (Edwards & Buckley, 1998). An even greater question hangs over whether the implications of the study can be extended to other countries and therefore to a general revision of "psychic distance" in a global context.

A quantitative study incorporating an adequate, randomly selected sample of Australian firms would help with the first part of this limitation. A quantitative study would assist in providing methodological triangulation to my study and provide an even stronger basis for conclusions than would otherwise exist (Miles & Huberman, 1994). Quantitative data through, for example, a questionnaire would be an appropriate research design to test hypothesis deduced from the results I have obtained through the qualitative case study approach

REFERENCES

AMC. 1993. *Emerging Exporters*. Melbourne: Australian Manufacturing Council.

Andersen, O. 1993. On the internationalization process of firms: a critical analysis. *Journal of International Business Studies*, 24(2): 209-31.

Andersen, P. & J. Strandskov. 1998. International market selection: a cognitive mapping perspective. *Journal of Global Marketing*, 11(3): 65-84.

Bell, J. 1995. The internationalization of small computer software firms. *European Journal of Marketing*, 29(8): 60-75.

Benito, G. & G. Gripsrud. 1992. The expansion of foreign direct investment: Discretional locational choices or a cultural learning process? *Journal of International Business Studies*, 23(3).

Brewer, P. 2001. International market selection: developing a model from Australian case studies. *International Business Review*, 10(2): 155-74.

Cicic, M., P. Patterson, & A. Shoham. 1999. A conceptual model of the internationalization of services firms. *Journal of Global Marketing*, 12(3): 81-106.

Crovitz, L. 1994. Overview. *Far Eastern Economic Review*: 7-12.

Davidson, W. 1980. The location of foreign investment activity. *Journal of International Business Studies*, 11: 9-22.

DFAT. 1995. *Australia Through the Eyes of Asia*. Canberra: Department of Foreign Affairs and Trade.

DFAT. 1992. *Australia's Business Challenge: South-East Asia in the 1990's*. Canberra: Department of Foreign Affairs and Trade.

DFAT. 2002. *Changing Corporate Asia: What Business Needs to Know*. Canberra: Department of Foreign Affairs and Trade.

DFAT. 1999. *Direction of Trade Time Series*. Canberra: Department of Foreign Affairs and Trade.

Dichtl, E., H. Koeglmayr, & S. Mueller. 1990. International orientation as a precondition for export success. *Journal of International Business Studies*, 21(1).

Dow, D. 2000. A note on psychological distance and export market selection. *Journal of International Marketing*, 8(1): 51-64.

Edwards, R. & P. Buckley. 1998. Choice of location and mode: the case of Australian investors in the UK. *International Business Review*, 7: 503-20.

Eisenhardt, K. 1995. Building theories from case study research.In Huber, G. & A. Van de Ven, editors, *Longitudinal Field Research Methods*. Thousand Oaks: Sage.

Ellis, P. 2000. Social ties and foreign market entry. *Journal of International Business Studies*, 31(3): 443-69.

Erramilli, M. & C. Rao. 1990. Choice of foreign market entry mode by service firms: role of market knowledge. *Management International Review*, 30(2): 135-50.

Evans, J., A Treadgold, & F. Mavondo. 2000. Psychic distance and the performance of international retailers - A suggested theoretical framework. *International Marketing review*, 17(4/5): 373-91.

Evans, J., A. Treadgold, & F. Mavondo. 2000. Explaining export development through psychic distance. *International Marketing Review*, 17(2/3): 164-68.

Firestone, W. 1993. Alternative arguments for generalizing from data as applied to qualitative research. *Educational Researcher*, 22(4): 16-23.

Fletcher, R. & J. Bohn. 1998. The impact of psychic distance on the internationalisation of the Australian firm. *Journal of Global Marketing*, 12(2): 47-68.

Hallen, L. & F. Wiedersheim-Paul. 1984. The evolution of psychic distance in international business relationships.In Hagg, I. & Wiedersheim-Paul, editors, *Between Market and Hierarchy*. Uppsala: Dept. of Business Administration.

Hofstede, G. 1994. The business of international business is culture. *International Business Review*, 3(1): 1-13.

Hofstede, G. 1980. *Culture's Consequences: International Differences in Work-Related Values*. Beverley Hills: Sage.

Holden, N. & M. Burgess. 1994. *Japanese-led Companies: Understanding How to Make Them Your Customers*. London: McGraw-Hill.

Johanson, J. & J. Vahlne. 1977. The internationalization process of the firm: a model of knowledge development and increasing foreign commitments. *Journal of International Business Studies*, 8(1): 23-32.

Johanson, J. & F. Wiedersheim-Paul. 1975. The internationalisation of the firm - four Swedish case studies. *The Journal of Management Studies*, 12(3): 305-22.

Kogut, B. & H. Singh. 1988. The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3): 411-32.

Langley, A. 1999. Strategies for theorizing from process data. *Academy of Management Review*, 24(4): 691-710.

Liesch, P. & G. Knight. 1999. Information internalization and hurdle rates in small and medium enterprise internationalization. *Journal of International Business Studies*, 3(2): 383-94.

Miles, M. & A. Huberman. 1994. *Qualitative Data Analysis: An Expanded Sourcebook*. Thousand Oaks: Sage.

Moss Kanter, R. 1994. Do cultural differences make a business difference? *Journal of Management Development*, 13(2): 5-24.

Nordstrom, K. & J. Vahlne. 1994. Is the globe shrinking? Psychic distance and the establishment of swedish sales subsidiaries during the last 100 years.In Landeck, M., editor, *International Trade: Regional and Global Issues*. London: St. Martin's Press.

O'Farrell, P. & P. Wood. 1994. International market selection by business service firms: key conceptual methodological issues. *International Business Review*, 3(3): 243-61.

O'Grady, S. & H. Lane. 1996. The psychic distance paradox. *Journal of International Business Studies*, 27(2): 309-33.

Papadopoulos, N. 1987. Approaches to international market selection for small and medium sized enterprises.In Rosson, P. & S. Reid, editors, *Managing Export Entry and Expansion*. New York: Praeger.

Petersen, B. & T. Pedersen. 1996. Twenty years after - support and critique of the Uppsala internationalisation model.In Bjorkman, I. & M. Forsgren, editors, *The Nature of the International Firm*. Copenhagen: Handelshojskolens Forlag.

Ralston, D., D. Gustafson, F. Cheung, & R. Terpstra. 1993. Differences in managerial values: a study of US, Hong Kong and PRC managers. *Journal of International Business Studies*, 24(2): 249-75.

Reid, S. 1984. Information acquisition and export entry decisions in small firms. *Journal of Business Research*, 12: 141-57.

Reid, S. 1984. Market expansion and firm internationalisation.In Kaynak, E., editor, *International Marketing Management*. New York: Praeger.

Remenyi, D., B. Williams, A. Money, & E. Swartz. 1998. *Doing Research in Business and Management*. London: Sage.

Sethi, S. 1971. Comparative cluster analysis for world markets. *Journal of Marketing Research*, 8: 348-54.

Srivastava, R. & R. Green. 1986. Determinants of bilateral trade. *Journal of Business*, 59(4): 623-40.

Stottinger, B. & B. Schlegelmilch. 1998. Explaining export development through psychic distance: enlightening or elusive? *International Marketing Review*, 15(5): 357-72.

Stottinger, B. & B. Schlegelmilch. 2000. Psychic distance: a concept past its due date? *International Marketing Review*, 17(2/3): 169-74.

Sullivan, D. & A. Bauerschmidt. 1990. Incremental internationalization: a test of Johanson and Vahlne's thesis. *Management International Review*, 30: 19-30.

Swift, J. 1999. Cultural closeness as a facet of cultural affinity. A contribution to the theory of psychic distance. *International Marketing Review*, 16(3): 182-201.

Thomas, A., O. Shenkar, & L. Clarke. 1994. The globalization of our mental maps: 25 years of JIBS coverage. *Journal of International Business*, 25(3): 675-86.

Tornroos, J. 1991. Relations between the concept of distance and international industrial marketing.In Paliwoda, S., editor, *New Perspectives in International Marketing*. London: Routledge.

Vahlne, J. & F. Wiedersheim-Paul. 1977 "Psychic Distance: An Inhibiting factor in International Trade", Centre for international Business Studies, University of Uppsala.

Vernon, R. 1966. International investment and international trade in the product cycle. *Quarterly Journal of Economics*, May: 190-207.

Weber, R. 1985. *Basic Content Analysis*. Beverley Hills: Sage.

Welch, L. S. & R. Luostarinen. 1988. Internationalization: evolution of a concept. *Journal of General Management*, 14(2): 34-55.

Yin, R.K. 1994. *Case Study Research - Design and Methods*. Thousand Oaks: Sage.